

Initiative #153
Authorize Sales Tax and Bonds for Transportation Projects

1 **Proposition ? proposes amending the Colorado statutes to:**

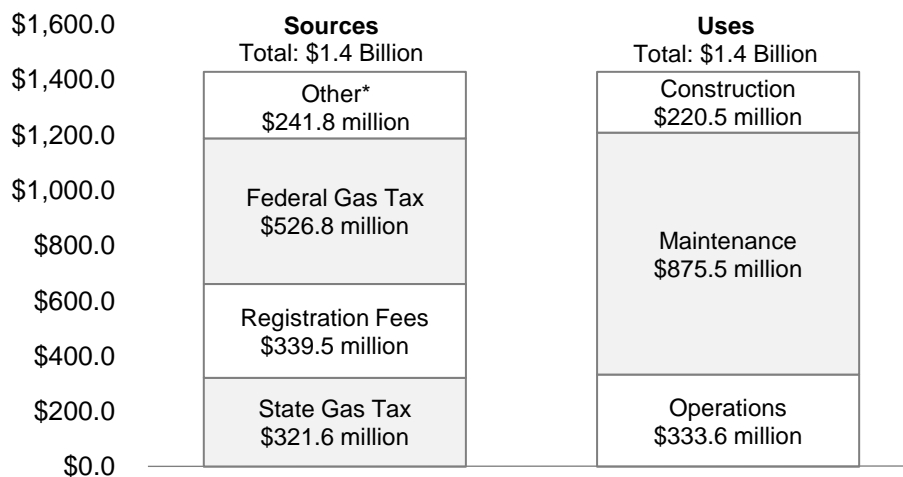
- 2 ♦ increase the state's sales and use tax rate from 2.9 percent to 3.52 percent for
- 3 20 years;
- 4 ♦ distribute the new tax revenue for transportation as follows: 45 percent to the
- 5 state; 40 percent to local governments; and 15 percent for multimodal
- 6 transportation projects; and
- 7 ♦ permit the state to borrow up to \$6.0 billion in 2019 for transportation projects
- 8 and limit the total repayment amount, including principal and interest, to
- 9 \$9.4 billion over 20 years.

10 **Summary and Analysis**

11 This analysis outlines state highway funding and the state sales and use tax under
12 current law. In addition, it describes the sales and use tax increase and bond sale and
13 repayment authorized by the measure.

14 **Current state highway funding.** Maintenance and construction of state highways
15 are funded through the Colorado Department of Transportation (CDOT). CDOT receives
16 most of its revenue from federal and state gasoline and diesel fuel taxes and from
17 vehicle registration fees, as shown in Figure 1. For state budget year 2017-18, CDOT
18 spent approximately \$1.2 billion, or roughly 79 percent of its revenue, for state highway
19 maintenance and operations and \$220.5 million, or 21 percent, on construction.

Figure 1
State Transportation Funding Sources and Uses
Budget Year 2017-18, Dollars in Millions



Source: Colorado Department of Transportation.

*Other funding sources include federal grants, tolls, and other state and local funds.

Sales and use tax. The state sales tax is paid on the purchase price of most items. Some items are exempt, such as food bought at grocery stores, prescription drugs, household utilities, and gasoline. The tax applies to some services, most notably telephone service, food and drink service at restaurants and bars, and short-term lodging. The state use tax is paid when sales tax was due but not collected. In addition to the state's 2.9 percent rate, most cities and counties also have sales and use taxes. Combined state and local sales tax rates in Colorado range from 2.9 percent to 11.2 percent, depending on where a purchase is made.

Amount of the tax increase. Beginning January 1, 2019, the measure increases the state sales tax rate from 2.9 percent to 3.52 percent for 20 years. The measure is estimated to raise about \$767 million in the first year that it applies. Table 1 provides examples of estimated state sales taxes due currently and under Proposition ?. Under the measure, the average amount of sales tax paid by a Colorado family with an average income of \$74,374 is estimated to increase by \$131.

Table 1
Comparison of Average Annual State Sales Taxes Due under Current Law and Proposition ?

Current Law		Under Proposition ?	
Family Income	State Sales Tax Paid (2.9%)	Tax Increase (0.62%)	Total State Sales Tax Paid (3.52%)
\$6,495	\$197	\$42	\$239
\$13,143	\$235	\$50	\$285
\$24,015	\$359	\$77	\$436
\$42,272	\$459	\$98	\$557
\$74,374	\$611	\$131	\$742
\$83,473	\$730	\$156	\$886
\$190,232	\$1,171	\$250	\$1,421

Source: Colorado Department of Revenue, 2016 Tax Profile & Expenditure Report.

Use of new tax revenue for transportation. The additional tax revenue collected under Proposition ? is dedicated to the following uses:

- 45 percent to CDOT for state transportation projects, including debt repayment;
- 40 percent to local governments for transportation projects; and
- 15 percent for multimodal transportation projects.

The state's share of the additional tax revenue will be spent by CDOT on state transportation projects that address safety, maintenance, and congestion and to repay borrowing under this measure for transportation projects. The Transportation Commission, an 11-member body appointed by the Governor to prioritize statewide transportation needs, will determine the use of these funds.

The local share of the additional revenue will be distributed to every city and county based on an existing formula in state law.

The additional tax revenue identified for multimodal transportation projects will mostly be spent by local governments. Multimodal transportation is designed to reduce the use of personal vehicles and includes bike paths, sidewalks, and public transit, such as buses and rail.

Bond sale and repayment. Proposition ? permits CDOT to borrow up to \$6.0 billion by selling transportation revenue bonds. The total repayment amount, including principal and interest, is limited to \$9.4 billion over 20 years, and the state must reserve the right to repay the bonds ahead of schedule without penalty. Assuming the repayment schedule is for the full \$9.4 billion over 20 years, the average annual repayment cost will be \$470 million. Actual repayment amounts will vary depending on the terms of the revenue bonds. The measure creates a citizen oversight commission to annually report on the use of the bond proceeds.

Past bond sale and repayment for transportation projects. In 1999, voters approved the sale of \$1.5 billion worth of bonds for transportation projects. The state was required to use the borrowed money to pay for up to 24 transportation projects, including the widening of I-25 in Denver. Repayment costs for the 1999 bonds totaled \$2.3 billion. The debt was fully repaid through various state and federal sources in December 2016.

*For information on those issue committees that support or oppose the measures on the ballot at the **November 6, 2018**, election, go to the Colorado Secretary of State's elections center web site hyperlink for ballot and initiative information:*

<http://www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html>

Arguments For

- 1) Colorado's highways are deteriorating, and the cost of improvements continues to increase. The state needs to invest immediately in its infrastructure and cannot afford to expand and modernize its transportation system without a new revenue source. Colorado needs a modern transportation system that includes road, bus, bike, pedestrian, and rail options to address its growing population. This measure creates a flexible statewide transportation solution, and it lets local communities identify their own transportation projects and prioritize their most urgent needs.
- 2) Proposition ? creates a sustainable source of funding for Colorado's transportation needs. Colorado's highway costs outpace collections from the gas tax. This measure offers a way for the state to increase transportation funding and repay bonds. This new, dedicated revenue for transportation will allow the state to continue to meet its obligations to fund education, health programs, and, public safety while also investing heavily in Colorado's roads.

Arguments Against

- 1) Proposition ? raises taxes for a fundamental government service that should be fully funded through the state budget. Any shortfall in transportation funding is a result of prioritizing state spending in other areas of government. The state can fund roads with the money it collects in taxes, rather than resorting to expensive borrowing. Additionally, this measure dedicates too much revenue to underutilized multimodal transportation, money that should be used exclusively for road repair and improvement. The majority of the workforce use their personal vehicles to commute daily and depend on quality road and highway maintenance.
- 2) Sales taxes, which are already high, provide a poor method for funding transportation. The total sales tax rate exceeds 10 percent in some areas of Colorado. Raising the state sales tax disproportionately affects low-income individuals because they must spend a larger share of their budget buying taxable necessities.

Estimate of Fiscal Impact

State revenue. This measure increases sales and use tax revenue by \$366.0 million in FY 2018-19, and by \$766.7 million in FY 2019-20. The sales and use tax revenue increase continues for 20 years through FY 2039-40. In addition, the measure authorizes CDOT to sell bonds and increase revenue by up to \$6.0 billion starting in FY 2018-19.

State expenditures. This measure will increase expenditures equal to the amount of revenue described above for construction and maintenance of transportation projects, and debt service. The administrative costs of implementing the policies in the measure will increase state expenditures by \$65,127 in FY 2018-19 only.

Local government revenue and expenditures. The measure increases local government revenue and expenditures by \$146.4 million in FY 2018-19, and by \$306.7 million in FY 2019-20. These increases continue for 20 years, through FY 2039-40.